

Before Amir M. Khan Afridi, Director/HOD (Adjudication-I)

**In the matter of Show Cause Notice issued to SPI Insurance Company Limited**

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Dates of Hearing

May 24, 2022

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**Order-Redacted Version**

Order dated July 28, 2022 was passed by Director/Head of Department (Adjudication-I) in the matter of SPI Insurance Company Limited. Relevant details are given as hereunder:

Nature	Details
1. Date of Action	Show cause notice dated March 07, 2022.
2. Name of Respondent	SPI Insurance Company Limited (the Company and/ or the Respondent).
3. Nature of Offence	Alleged contraventions of <u>Section 36 of the Insurance Ordinance, 2000 (the Ordinance)</u> read with <u>Section 11(1)(c) thereof and rule 15 of the Insurance Rules, 2017 (the Rules)</u>
4. Action Taken	<p>Key findings were reported in the following manner:</p> <p>I have examined the facts of the case in light of the applicable provisions of the law and the written as well as verbal submissions and arguments of the Respondent and state that:</p> <ul style="list-style-type: none"><li>(i) the SCN was issued in exercise of the powers vested in the undersigned in terms of Section 156 of the Ordinance;</li><li>(ii) the said powers of the Commission are delegated to the undersigned vide SRO 1545(1)/2019 dated December 6, 2019, therefore, there is no question of sub delegation of powers;</li><li>(iii) it is also clarified that SRO 744(I)/2020 dated August 17, 2020 which has been superseded by SRO 508(I)/2021 dated April 22, 2021 and the latter is not in conflict with SRO 1545(I)/2019 dated December 6, 2019, as far as delegation of powers is concerned;</li><li>(iv) the Respondent's contention that for the purpose of determining whether two companies are related parties, they have to be connected directly by an ownership interest exceeding 49%, is not tenable. The</li></ul>

	<p>reason being that indirect ownership interest definitely augments direct ownership interest of a shareholder resulting in an increase in effective ownership interest and control in the companies i.e. related parties;</p> <p>(v) The principle of "Casus Omissus" does not apply in the matter as Section 32(7) of the Ordinance does not specify that only direct interest would be considered for the purpose of determining the relationship of "related parties" between the two persons; therefore, indirect ownership interest cannot be ignored for this purpose.</p> <p>(vi) The provisions of Section 32(7) of the Ordinance, do not restrict ownership interest of a shareholder to his/her/its direct shareholding only. In the instant case, Mian M.A. Shahid has effective shareholding in the Company, UICL and AMBL of 69.259%, <b>87.78%</b> and 67.75%, respectively. Thus, the Company, UICL and AMBL not only belong to the United Group but are connected with each other by an ownership interest exceeding 49% by the same person and accordingly they are under the common control. Therefore, both the Company and AMBL fulfill the criteria laid down in Section 32(7) of the Ordinance. Moreover, by virtue of shareholding of the same person exceeding 20% in all the aforesaid three (3) entities i.e. the Company, UICL and AMBL, they are also associated companies.</p> <p>(vii) Thus, the related party balances of Investment in AMFBL of Rs. 11,452,608; Premium due but unpaid with UICL - WTO of Rs. 37,605; Premium due but unpaid with UICL, of Rs. 6,619,649; Insurance Receivable from UICL of Rs. 196,592,561 (as shown in the Statement of Assets for Solvency Purposes for FY2019 in para 7) are not admissible for the purpose of solvency calculations of the Company. Resultantly, the Company would be insolvent by an amount of Rs. 33.03 million as on December 31, 2019 (as shown in para 7 above).</p> <p>(viii) Moreover, the related party balances of Investment in AMFBL of Rs. 22,233,812; Insurance Receivable from UICL of Rs. 242,623,090; Advance to Related Parties of Rs. 10,481,136; Reinsurance recoveries from UICL-PTF of Rs. 13,559,582; Property, Plant &amp; Equipment (PPE) of Rs. <b>5,716,916</b> and Contribution due but unpaid (more than 3 months) of Rs. 37,907,898 (as shown in the Statement of Assets for Solvency Purposes for FY2020 in para 7) are not admissible for the purpose of solvency</p>
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	<p>calculations of the Company. Resultantly, the Company would be insolvent by an amount of Rs. 28.65 million as on December 31, 2020.</p> <p>(ix) Due to insolvency of the Company as at December 31, 2019 and December 31, 2020, the Company has contravened the provisions of Section 36 of the Ordinance read with Section 11(1)(c) thereof and rule 15 of the Rules, which attracts penal provisions contained in Section 156 of the Ordinance.</p> <p>In view of the above, I in exercise of the powers conferred under Section 156 of the Ordinance, hereby, impose fine of <u>Rs. 150,000/- (Rupees One Hundred Fifty Thousand Only)</u> on the Company on account of established non-compliances/defaults/contraventions, as mentioned in the above paras.</p>
5. Penalty Imposed	Rs. 150,000/-
6. Current Status of Order	Penalty not deposited and No Appeal has been filed by the respondent.